JPMorgan Profit Drops 76 Percent on $2.9 Billion of Writedowns

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By Elizabeth Hester

Jan. 15 (Bloomberg) -- **JPMorgan Chase & Co.**, the second- largest U.S. bank by assets, said profit fell 76 percent as rising defaults and the U.S. recession forced the bank to write down $2.9 billion of assets and boost reserves for bad loans.

Fourth-quarter net income was $702 million, or 7 cents a share, compared with $2.97 billion, or 86 cents, a year earlier, the New York-based bank said today in a statement. That included a $1.3 billion gain from closing a joint venture and "risk- management results," the company said. Without the gains, JPMorgan lost 28 cents a share.

The year-old U.S. recession has pushed the **unemployment rate** to a 15-year high, and foreclosures rose to a record in the third quarter. More consumers are paying late on their credit cards and mortgages, forcing banks to increase reserves. JPMorgan has almost tripled its provisions for bad debt in the past year, the company said today.

"If the economic environment deteriorates further, which is a distinct possibility, it is reasonable to expect additional negative impact on our market-related businesses, continued higher loan losses and increases to our credit reserves," Chief Executive Officer **Jamie Dimon** said in the statement.

Fourth-quarter writedowns for mortgage-related assets and leveraged loans totaled $2.9 billion before taxes, the company said. The provision for credit losses increased by $5.4 billion from 2007 levels to $8.5 billion, and the bank's Tier 1 capital ratio was estimated at 10.8 percent as of Dec. 31.

Investment Bank

JPMorgan's **investment-banking** division lost $2.36 billion in the fourth quarter, compared with profit of $124 million the previous year, and revenue was negative $302 million.

Earnings at the consumer-banking subsidiary declined 15 percent to $624 million from $731 million as the firm set aside more money for bad loans. The bank's credit-card unit had a loss of $371 million compared with a profit of $609 million a year earlier. The so-called charge-off rate rose to 5.56 percent from 5 percent in the third quarter and 3.89 percent a year ago.

Fourteen analysts **surveyed** by Bloomberg had an average earnings estimate of 1 cent a share. The bank earned $5.6 billion, or $1.37 a share, for the full year on revenue of $73.4 billion, excluding merger-related items.

JPMorgan, which moved up its earnings announcement by six days, is the first of the largest U.S. banks to disclose fourth- quarter figures. New York-based **Citigroup Inc.** reports tomorrow, and Bank of America Corp., which bought Merrill Lynch & Co. two weeks ago, is scheduled to release results on Jan. 20. San Francisco-based **Wells Fargo & Co.** will follow on Jan. 28 as it works to absorb Wachovia Corp.

Shares Rise

Shares of JPMorgan rose to $26.50 in New York from $25.91 at the close on the New York Stock Exchange yesterday.

“This is a very good start to the banking sector,” **Robert Hegarty**, managing director at TowerGroup, said in a Bloomberg Radio interview. “People are just looking for the fact that the bottom isn’t falling out. JPMorgan certainly came through this morning with that kind of news.”

Dimon, 52, has decided to forgo his bonus this year, a person familiar with the matter said last month. Morgan Stanley’s **John Mack** and Bank of America’s **Kenneth Lewis** are doing the same as the worst financial crisis since the Great Depression cripples the firms’ share prices.

JPMorgan, which lost 34 percent of market value in the past year, fell 1.7 percent to $25.91 in New York Stock Exchange composite trading yesterday. Citigroup tumbled 83 percent in the past 12 months, Charlotte, North Carolina-based **Bank of America** dropped 73 percent and **Morgan Stanley** declined 64 percent.

Bond Sales

JPMorgan has issued $17.9 billion of debt backed by the Federal Deposit Insurance Corp. under the Temporary Liquidity Guarantee Program, which insures **bank debt** issued through June. Financial firms are using the new channel to fund themselves after the credit seizure sapped demand for their debt.

Federal Reserve officials and President-elect Barack Obama have said more government help will be needed to shore up the U.S. financial system.

Fed Chairman Ben S. Bernanke said Jan. 13 that banks’ holdings of hard-to-sell investments raise questions about the companies’ underlying value, and called for the government to take on or insure the assets. Obama is deciding how to use the remaining $350 billion of the $700 billion Troubled Asset Relief Program that Congress approved in October, with some Democrats saying the plan should favor homeowners and community banks over larger financial-services companies.

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